

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

Corporate governance is the collective responsibility of Members of the Board and the Board firmly believes that good corporate governance is fundamental in ensuring the proper management of the Company in the interests of all of its stakeholders. The Board is conscious about continuous improvement in the arena of corporate governance and takes prompt actions in responding to identified improvement opportunities.

This Report describes the corporate governance best practices that the Company has adopted and highlights how the Company has applied the principles of the Code Provisions set out in the Corporate Governance Code (the “Code”) contained in Appendix 14 to the Listing Rules.

Following the unearthing of various issues arising from the construction of the Hung Hom Station Extension of the Shatin to Central Link (“SCL”) project in 2018, improvements in the Company’s project management processes and procedures have been identified for implementation progressively in 2019 and beyond. Following an external review on enhancing the checks and balances within the relevant processes and procedures relating to the Company’s project management regime, a special taskforce has been set up to drive and track the implementation of the recommendations put forward by the external consultant. The recommendations have been categorised with target dates for completion and ownership has been assigned to designated working groups. Digital site management tools have been introduced to enhance site record keeping, communications and supervision, and a new Quality Assurance function has been established within the Engineering Division to provide enhanced quality assurance of project works.

With respect to a review of the Company’s internal control and risk management systems for Hong Kong operations (excluding Projects related processes and procedures which have been covered under a separate review (as mentioned in the paragraph above)),

PricewaterhouseCoopers has completed its first stage review with seven initiatives proposed. To address the findings from PricewaterhouseCoopers’ review mentioned above, management will embark on a series of further reviews. Recommended timelines for and prioritisation of these further reviews will be presented to the Board for approval in 2020.

CORPORATE GOVERNANCE CODE COMPLIANCE

During the year ended 31 December 2019, the Company has complied with the Code.

As mentioned in last year’s Report, the Company had prepared itself for complying with the new requirements set out in the Stock Exchange’s conclusions to its consultation paper entitled “Review of the Corporate Governance Code and Related Listing Rules” to, inter alia, upgrade the Code provision relating to board diversity to form part of the Listing Rules, to require disclosure of a nomination policy in the Corporate Governance Report and to expand the factors for consideration when assessing the independence of a non-executive director, in advance of these requirements coming into effect on 1 January 2019.

In preparing its Sustainability Report, the Company has followed the Environmental, Social and Governance Reporting Guide (“ESG Guide”) as set out in Appendix 27 to the Listing Rules and has made reference to various international reporting standards and guidelines, as such, the Company has substantially met with the new requirements under the ESG Guide which will be implemented for financial years commencing on or after 1 July 2020, following the Stock Exchange’s conclusions to its consultation paper entitled “Review of the Environmental, Social and Governance Reporting Guide and Related Listing Rules” published in December 2019.

The Company continues to monitor developments in the arena of corporate governance externally to ensure the suitability and robustness of its corporate governance framework in light of the evolving business and regulatory environment and to meet the expectations of stakeholders.

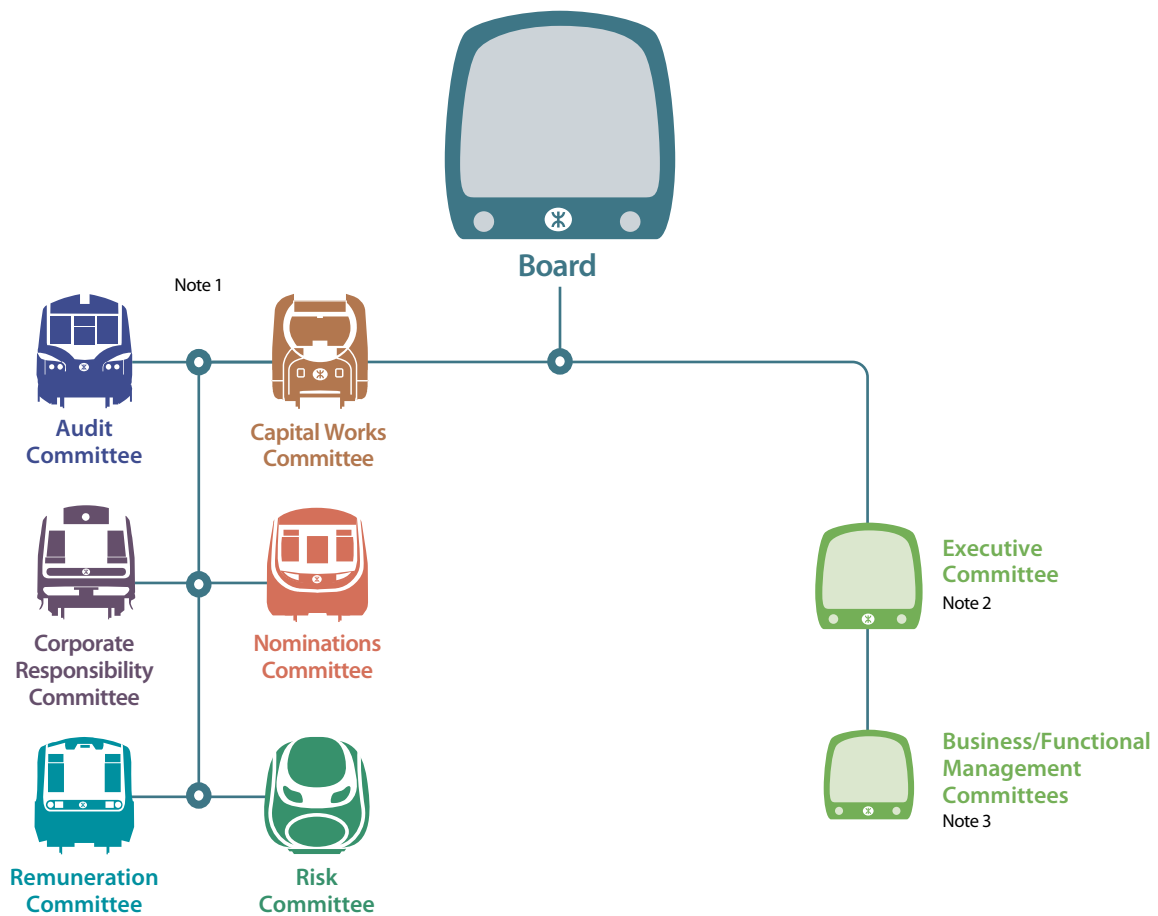
THE BOARD OF DIRECTORS

Overall Management

The overall management of the Company's business is vested in the Board. Pursuant to the Articles of Association and the "Protocol: Matters Reserved for the Board" (the "Protocol") adopted by the Board, the Board has delegated the day-to-day management of the Company's business to the Executive Committee, and focuses its attention on matters affecting the Company's overall strategic policies, corporate governance, finances and shareholders. These include financial statements, dividend policy, significant changes in accounting policy, annual operating budget, certain material contracts, strategies for future growth, major financing arrangements and major investments, corporate governance functions, risk management and internal control systems, treasury policies and fare structures.

In 2019, recognising the public concern over the issues related to the SCL project, the train collision during signalling testing on the Tsuen Wan Line in March and the derailment near Hung Hom Station on the East Rail Line in September, the Board had held a number of Special Meetings to consider and monitor the incidents and issues relating to the aforesaid matters. In addition, the Company's Capital Works Committee (with delegated authority from the Board) held an additional meeting to discuss the issues related to the SCL project.

Below is a diagram of the governance structure of the Company:



Notes:

1. All Board Committees are provided with sufficient resources to discharge their duties and can seek independent professional advice (as and when required) at the Company's expense, to perform their responsibilities. The Terms of Reference of each Committee are available on the websites of both the Company (www.mtr.com.hk) and the Stock Exchange.
2. The Executive Committee is delegated by the Board to handle the day-to-day management of the Company's business pursuant to the Articles of Association and the Protocol; and is chaired by the Chief Executive Officer ("CEO") and made up of ten other Members of the Executive Directorate.
3. Key Business/Functional Management Committees are listed out on pages 108 to 109 of this Annual Report.

Members of the Board and the Executive Directorate Attendance of Meetings and Training in 2019

	Attendance										2019 AGM	Training ^a
	Board Meetings			Board Committees Meetings						Joint AC and RiskC Meeting		
	RM	SM	PM	AC	NC	RC	CWC	RiskC	CRC			
Total Number of Meetings	7	8	3	4	2	4	5	4	2	1	1	
Members of the Board												
Non-executive Directors ("NED")												
Rex Auyeung Pak-kuen ⁽¹⁾ (Chairman)	5/5	7/7	1/1			1/1			1/1 ^c		1/1	√
James Henry Lau Jr ⁽²⁾ (Secretary for Financial Services and the Treasury)	6/7	6/8	3/3		2/2	1/4					0/1	√
Secretary for Transport and Housing (Frank Chan Fan) ⁽³⁾	5/7	2/8	2/3		2/2	3/4					0/1	√
Permanent Secretary for Development (Works) (Lam Sai-hung) ⁽⁴⁾	3/7	3/8	2/3				4/5	2/4		1/1	0/1	√
Commissioner for Transport (Mable Chan) ⁽⁵⁾	5/7	6/8	2/3	4/4					3/4	1/1	0/1	√
Independent Non-executive Directors ("INED")												
Andrew Clifford Winawer Brandler	6/7	6/8	3/3	4/4					4/4 ^c	1/1	1/1	√
Walter Chan Kar-lok ⁽⁶⁾	4/4	6/6	1/1							1/1	N/A	√
Dr Pamela Chan Wong Shui ^{(7)c}	7/7	7/8	3/3		2/2					2/2	1/1	√
Dr Dorothy Chan Yuen Tak-fai	6/7	6/8	3/3			4/4 ^c	4/5				1/1	√
Cheng Yan-kee ⁽⁸⁾	4/4	5/6	1/1			2/2	3/3				N/A	√
Dr Anthony Chow Wing-kin	5/7	5/8	1/3			4/4	5/5				1/1	√
Dr Eddy Fong Ching	7/7	6/8	3/3	4/4 ^c	2/2					1/1	1/1	√
James Kwan Yuk-choi	7/7	7/8	3/3				5/5	4/4		1/1	1/1	√
Rose Lee Wai-mun ⁽⁹⁾	6/7	8/8	2/3	4/4				4/4		1/1	1/1	√
Lucia Li Li Ka-lai	7/7	8/8	3/3	4/4						2/2	1/1	√
Jimmy Ng Wing-ka ⁽¹⁰⁾	4/4	3/6	1/1				3/3			1/1	N/A	√
Benjamin Tang Kwok-bun	7/7	7/8	3/3			3/4		4/4		0/1	1/1	√
Dr Allan Wong Chi-yun	6/7	7/8	2/3		2/2		5/5 ^c				1/1	√
Johannes Zhou Yuan ⁽¹¹⁾	7/7	3/8	3/3	4/4				3/4		1/1	1/1	√
Executive Director ("ED")												
Dr Jacob Kam Chak-pui (CEO) ⁽¹²⁾	5/5	5/6	1/1							2/2	1/1	√
Members of the Executive Directorate & the Executive Committee												
Dr Jacob Kam Chak-pui (CEO) ⁽¹²⁾	5/5	5/6	1/1							2/2	1/1	√
Adi Lau Tin-shing ⁽¹³⁾											1/1	√
Roger Francis Bayliss ⁽¹⁴⁾											1/1	√
Margaret Cheng Wai-ching										2/2	1/1	√
Dr Peter Ronald Ewen											1/1	√
Herbert Hui Leung-wah											1/1	√
Gillian Elizabeth Meller											1/1	√
Linda So Ka-pik ⁽¹⁵⁾										2/2	1/1	√
David Tang Chi-fai											1/1	√
Jeny Yeung Mei-chun											1/1	√
Members departed during 2019												
NED												
Professor Frederick Ma Si-hang (Chairman) ⁽¹⁶⁾	2/3	3/3	1/2		2/2	1/3				1/1 ^c	1/1	√
INED												
Vincent Cheng Hoi-chuen ⁽¹⁷⁾	3/3	2/2	1/2			2/2				1/1	0/1	×
Lau Ping-cheung, Kaizer ⁽¹⁸⁾	1/3	2/2	0/2				2/2			0/1	1/1	×
Abraham Shek Lai-him ⁽¹⁹⁾	3/3	2/2	2/2		2/2 ^c		1/2				1/1	√
ED, Member of the Executive Directorate & the Executive Committee												
Lincoln Leong Kwok-kuen (CEO) ⁽²⁰⁾	2/2	1/2	2/2							N/A	N/A	√

Legend:

Board Meetings

RM – Regular Meeting(s)
SM – Special Meeting(s)
PM – Private Meeting(s)

Board Committee Meetings

AC – Audit Committee
NC – Nominations Committee
RC – Remuneration Committee
CWC – Capital Works Committee
RiskC – Risk Committee
CRC – Corporate Responsibility Committee

2019 AGM – Annual General Meeting of the Company held on 22 May 2019

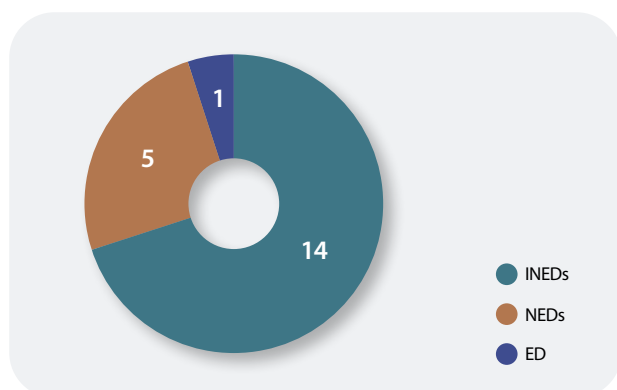
C – Chairman of the committee

Ω – This includes (i) continuous professional development through attending expert briefings/seminars/conferences relevant to the Company's business or directors' duties arranged by the Company or external organisations, and reading regulatory/corporate governance or industry related updates; and (ii) induction and familiarization programmes attended by newly appointed Directors

Notes:

1. Mr Rex Auyeung Pak-kuen was appointed as a NED of the Company with effect from 7 March 2019. Pursuant to Article 117(a) of the Articles of Association, The Financial Secretary Incorporated appointed Mr Auyeung as Chairman of the Company with effect from 1 July 2019 until 31 December 2021 (both dates inclusive). He also became the chairman of the CRC and a member of each of the NC and the RC of the Company all at the same time with effect from 1 July 2019.
2. The alternate directors of Mr James Henry Lau Jr, acting on his behalf, attended one RM, three RC meetings and the 2019 AGM. Mr Lau and his alternate directors were not present at the relevant Board meetings or a portion thereof at which the SCL project, the Express Rail Link project or a proposed property development project were discussed for avoidance of any actual or perceived conflict of interest.
3. The alternate directors of Mr Frank Chan Fan, acting on his behalf, attended two RM, four SM, one PM and one RC meeting. Mr Chan and his alternate directors were not present at the relevant Board meetings or a portion thereof at which the SCL project, the Express Rail Link project or a proposed property development project were discussed for avoidance of any actual or perceived conflict of interest.
4. The alternate director of Mr Lam Sai-hung, acting on his behalf, attended two RM, three SM and two RiskC meetings. Mr Lam and his alternate director were not present at the relevant Board meetings or a portion thereof at which the SCL project, the Express Rail Link project or a proposed property development project were discussed for avoidance of any actual or perceived conflict of interest.
5. The alternate director of Ms Mable Chan, acting on her behalf, attended two RM. Ms Chan and her alternate director were not present at the relevant Board meetings or a portion thereof at which the SCL project, the Express Rail Link project or a proposed property development project were discussed for avoidance of any actual or perceived conflict of interest.
6. Mr Walter Chan Kar-lok was elected as a new Board Member and became an INED of the Company with effect from the conclusion of the 2019 AGM, and was appointed by the Board as a member of each of the NC and the CRC of the Company at the same time. He attended the 2019 AGM as a guest in light of his proposed appointment as a Director.
7. Dr Pamela Chan Wong Shui was appointed by the Board as the chairman of the NC of the Company with effect from the conclusion of the 2019 AGM.
8. Mr Cheng Yan-kee was elected as a new Board Member and became an INED of the Company with effect from the conclusion of the 2019 AGM, and was appointed by the Board as a member of each of the RC and the CWC of the Company at the same time. He attended the 2019 AGM as a guest in light of his proposed appointment as a Director.
9. Ms Rose Lee Wai-mun attended one AC meeting by teleconference.
10. Mr Jimmy Ng Wing-ka was elected as a new Board Member and became an INED of the Company with effect from the conclusion of the 2019 AGM, and was appointed by the Board as a member of each of the CWC and the CRC of the Company at the same time. He attended the 2019 AGM as a guest in light of his proposed appointment as a Director.
11. Mr Johannes Zhou Yuan attended three SM, one AC meeting and the joint AC and RiskC meeting by teleconference.
12. Dr Jacob Kam Chak-pui was appointed as the CEO, a Board Member and a member of the CRC of the Company, all with effect from 1 April 2019.
13. Mr Adi Lau Tin-shing was appointed as the Managing Director – Operations and Mainland Business and ceased to be the Operations Director of the Company, both with effect from 1 January 2020. As announced by the Company on 12 December 2019, the post of Operations Director was taken up by Dr Tony Lee Kar-yun on 1 January 2020.
14. Mr Roger Francis Bayliss was appointed as the Projects Director and a Member of the Executive Directorate of the Company with effect from 18 March 2019.
15. As announced by the Company on 20 August 2019, Ms Linda So Ka-pik resigned as the Corporate Affairs Director and ceased to be a Member of the Executive Directorate and a member of the CRC of the Company, all with effect from 16 January 2020. The Company announced on 23 January 2020 that Ms Linda Choy Siu-min has been appointed as the Corporate Affairs Director, a Member of the Executive Directorate of the Company and a member of the CRC of the Company, all with effect from 2 March 2020.
16. Professor Frederick Ma Si-hang retired as the Chairman, a Board Member, the chairman of the CRC and a member of each of the NC and the RC of the Company, upon expiration of his tenure after 30 June 2019.
17. Mr Vincent Cheng Hoi-chuen retired as an INED and ceased to be a member of each of the RC and the CRC of the Company, all with effect from the conclusion of the 2019 AGM.
18. Mr Lau Ping-cheung, Kaizer retired as an INED and ceased to be a member of each of the CWC and the CRC of the Company, all with effect from the conclusion of the 2019 AGM.
19. Mr Abraham Shek Lai-him retired as an INED and ceased to be the chairman of the NC and a member of the CWC of the Company, all with effect from the conclusion of the 2019 AGM.
20. Mr Lincoln Leong Kwok-kuen retired as the CEO and ceased to be a Board Member, a member of each of the Executive Directorate and the CRC of the Company, all with effect from 1 April 2019.

Composition of the Board



A list of Members of the Board and the Executive Directorate and their roles and functions is available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange. Biographical details of each of the Members of the Board and the Executive Directorate are set out on pages 130 to 142 of this Annual Report.

The Board currently has 20 Members, made up of 14 INEDs, 5 NEDs and 1 ED. As shown in the above chart, the number of INEDs currently comprises more than two-thirds of the Company's Board, which is well above the Listing Rules requirement of having one-third of a board made up of independent non-executive directors.

Government, through The Financial Secretary Incorporated, holds approximately 75.26% of the issued shares of the Company as at 31 December 2019, and is a substantial shareholder of the Company. The Chief Executive of the HKSAR, in the exercise of her right under Section 8 of the MTR Ordinance, has appointed three persons as "additional directors" of the Company (the "Additional Directors"). They are:

- The office of the Secretary for Transport and Housing (currently held by Mr Frank Chan Fan);
- The office of the Permanent Secretary for Development (Works) (currently held by Mr Lam Sai-hung); and
- The office of the Commissioner for Transport (currently held by Ms Mable Chan).

The Additional Directors are all NEDs and are treated for all purposes (other than the requirement to retire by rotation according to the Articles of Association) in the same way as other Directors and are, therefore, subject to the usual common law duties of directors, including the requirement to act in the best interests of the Company.

Mr James Henry Lau Jr, the Secretary for Financial Services and the Treasury, is another NED of the Company.

Coming from diverse business and professional backgrounds, Members of the Board actively bring their valuable experience to the Board for promoting the best interests of the Company and its shareholders. In addition, the INEDs also contribute to ensuring that the interests of all shareholders of the Company are taken into account by the Board and that relevant issues are subject to objective and dispassionate consideration by the Board.

Chairman and CEO

The posts of the Chairman and the CEO are distinct and separate.

The non-executive Chairman is responsible for:

- Chairing and managing the operations of the Board;
- Monitoring the performance of the CEO and other Members of the Executive Directorate;
- Making sure that adequate information about the Company's business is provided to the Board on a timely basis;
- Providing leadership for the Board and promoting a culture of openness;
- Ensuring views on all issues are exchanged by all Members of the Board in a timely manner;
- Encouraging Members of the Board to make a full and effective contribution to the discussion at Board Meetings; and
- Establishing good corporate governance practices and procedures.

The CEO is:

- Head of the Executive Directorate;
- Chairman of the Executive Committee;
- Responsible to the Board for managing the business of the Company; and
- Responsible for performing a bridging function between the Board and the Executive Directorate.

Board Committees

The Board Committee memberships and the attendance record of each Member of the Board in 2019 are set out on pages 96 to 97 of this Annual Report.

Audit Committee

Details of the Audit Committee, including its duties and work performed during the year are set out in the Audit Committee Report (pages 115 to 117) of this Annual Report.

Risk Committee

Details of the Risk Committee, including its duties and work performed during the year are set out in the Risk Committee Report (pages 122 to 123) of this Annual Report.

Capital Works Committee

Details of the Capital Works Committee, including its duties and work performed during the year are set out in the Capital Works Committee Report (page 124) of this Annual Report.

Remuneration Committee

Details of the Remuneration Committee, including its duties and work performed during the year are set out in the Remuneration Committee Report (pages 125 to 129) of this Annual Report.

Nominations Committee

Principal responsibilities:

- Reviewing the structure, size and composition (including the perspectives, skills, diversity, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- Identifying individuals suitably qualified to become Members of the Board and putting forward nominations or recommendations to the Board for proposed appointments to the Board;
- Assessing the independence of INEDs and, in case a proposed director will be holding his/her seventh (or more) listed company directorship, his/her ability to devote sufficient time to Board matters;

- Making recommendations to the Board on the appointment or re-appointment of Members of the Board and succession planning for Members of the Board; and
- Nominating and recommending to the Board, candidates for filling the positions of CEO, Finance Director and Chief Operating Officer (provided that the Chief Operating Officer position exists).

During the year, the Committee conducted reviews and made corresponding recommendations to the Board in respect of the following matters:

- The nomination of new Members of the Board (i) for appointment by the Board during 2019; and (ii) for election by shareholders at the 2019 AGM;
- The structure, size and composition of the Board and a list of desirable skills/experience/perspectives for the Board;
- An annual assessment of the independence of each INED of the Company; and
- The re-election of Members of the Board retiring at the 2019 AGM.

The Nominations Committee has conducted an annual review of (i) the current structure, size and composition of the Board and considered the same is appropriate in light of the Company's strategy; and (ii) the list of skillsets of the Board and resolved to recommend to the Board for adding a new skillset. The Nominations Committee has also assessed that the Board currently possesses a balanced mix of skills, experience and diversity of perspectives, is in line with the Company's Board Diversity Policy (the "BD Policy") and is appropriate for continuing to support the execution of the Company's business strategies in an efficient and effective manner.

Corporate Responsibility Committee

Principal responsibilities:

- Overseeing the Company's stakeholder engagement and external communication strategies;
- Recommending the Corporate Responsibility Policy to the Board for approval;
- Monitoring and overseeing the implementation of the Company's Corporate Responsibility Policy and related initiatives;

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- Identifying emerging corporate responsibility issues arising from external trends;
- Reviewing the Company's annual Sustainability Report and recommending approval by the Board;
- Reviewing the Company's environmental and social performance; and
- Providing updates to the Board on matters falling within the Committee's remit as required.

Please also refer to the "Corporate Responsibility" section (pages 84 to 89) of this Annual Report.

Work performed during the year:

- Monitoring of the progress of various youth, elderly and district-level community engagement and investment programmes;
- Review and recommendation of the 2018 Sustainability Report to the Board for approval;
- Review of a new Sustainability Report publication schedule;
- Consideration of the Company's performance on various local and international sustainability indices; and
- Endorsement of a Sustainable Procurement Roadmap.

Company Secretary

Ms Gillian Elizabeth Meller, being Legal and European Business Director ("L&EBD") and a Member of the Executive Directorate, reports to the CEO. Her role as Company Secretary includes:

- Providing access to advice and services for Members of the Board;
- Ensuring the correct Board procedures are followed;
- Advising the Board on all corporate governance matters;
- Arranging for Members of the Board, their Alternate Directors and Members of the Executive Directorate, upon their appointment, to receive a comprehensive, formal and tailored induction programme on key areas of business operations and practices of the Company, as well as the general and specific duties of directors under general law (common law and legislation) and the Listing Rules;
- Recommending Members of the Board, their Alternate Directors and Members of the Executive Directorate to attend relevant seminars and courses; and

- Arranging for training on relevant new or amended legislation or other regulations to be provided at Board meetings.

In 2019, Ms Meller undertook over 15 hours of professional training to update her skills and knowledge.

Appointment, Re-election and Removal of Members of the Board

A person may be appointed as a Member of the Board at any time either by:

- the shareholders in general meeting in accordance with the "Appointment Procedure for Members of the Board of the Company", which is available on the website of the Company (www.mtr.com.hk); or
- the Board upon the recommendation of the Nominations Committee of the Company; or
- the Chief Executive of the HKSAR in the case of the Additional Directors.

Members of the Board who are appointed by the Board during a year must retire at the first annual general meeting after their appointment and are eligible for election at that meeting.

Except for the Additional Directors, all other Members of the Board are required to retire by rotation. At each annual general meeting of the Company, Members of the Board who were last elected or re-elected at the annual general meeting which was held in the third calendar year prior to the annual general meeting in question, are those who will retire by rotation.

The Additional Directors may not be removed from office except by the Chief Executive of the HKSAR and are not subject to any requirement to retire by rotation.

The Company has a service contract with each of the NEDs (with the exception of the Additional Directors) and the INEDs, specifying the terms of his/her continuous appointment as a NED or an INED and as the chairman or a member of the relevant Board Committee(s), for a period not exceeding three years.

Nomination Policy

A Nomination Policy (the "Nomination Policy") documenting the procedures and practices that have been adopted by the Company was approved by the Board in January 2019, and is posted on the Company's website (www.mtr.com.hk).

The Nomination Policy sets out the process and procedures for governing the nomination of Members of the Board applicable to both new appointments and re-appointments, except for appointments made by the Chief Executive of the HKSAR pursuant to Section 8 of the MTR Ordinance and nomination by shareholders of the Company in accordance with the Articles of Association.

The Board has delegated to the Nominations Committee the authority to identify and assess potential candidates for appointment to the Board through different means and channels, including recommendations from Members of the Board, use of external search firms, and any other means or channels that it deems appropriate.

Nomination Procedures

In relation to appointments by the Board or by shareholders at a general meeting of the Company, the Nominations Committee will request the candidate to provide his/her biographical information and other information deemed necessary. The Nominations Committee will review and take reasonable steps to verify the information obtained from the candidate and seek clarification, where required. The Nominations Committee may, at its discretion, invite any candidate to meet with the Nominations Committee members to assist them in their consideration of the proposed nomination or recommendation. The Nominations Committee will then submit its nomination proposal to the Board for consideration and approval or making recommendation to the shareholders for approval.

In case of re-appointments of Members of the Board at a general meeting, the Nominations Committee will review the profile of the Members of the Board who have offered themselves for re-appointment to consider their suitability in light of the strategy of the Company as well as the structure, size and composition of the Board at that time. The Nominations Committee will then make recommendations for the Board's consideration and the Board will, at its discretion, make recommendations to the shareholders.

Selection Parameters

In evaluating a proposed candidate, including a Member of the Board eligible for re-appointment, the Nominations Committee will consider the following factors (which are by no means exhaustive):

(i) the strategy of the Company;

- (ii) the structure, size, composition and needs of the Board and its respective Board Committees at the time, taking into account succession planning, where appropriate;
- (iii) the required skills, which should be complementary to those of the existing Members of the Board;
- (iv) the BD Policy of the Company as amended by the Board from time to time;
- (v) any information obtained through third party references or background checks;
- (vi) any other factors that may be used as reference in assessing the suitability of a proposed candidate, including but not limited to the candidate's reputation for integrity, accomplishments and likely commitment in terms of time and interest;
- (vii) if a proposed candidate will be holding his/her seventh (or more) listed company directorship, the candidate's ability to devote sufficient time to the Board; and
- (viii) the independence of a candidate proposed to be appointed as an INED, in particular by reference to the independence requirements under the Listing Rules.

The Nominations Committee is vested with discretion to take into account such other factors that it may consider appropriate.

Board Diversity

The Company has posted its BD Policy on the Company's website (www.mtr.com.hk). The BD Policy sets out a clear objective and provides that the Company should endeavour to ensure that its Members of the Board have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and in order for the Board to be effective. The Company is conscious of maintaining a Board made up with INEDs as the majority, together with an appropriate level of female Members on the Board. While conscious efforts are being taken by the Company to fulfil its pledges, all appointments are ultimately made on a merit basis taking into account available and suitable candidates.

The Board reviews the BD Policy on a regular basis to ensure its continued effectiveness. During the year, the Board approved an update to the BD Policy to include an explicit commitment on the part of the Company to maintain an appropriate level of female Members on the Board.

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Gender



Designation



Age Group



Number of Years as Board Members (Years)



Outside Directorships (Number of listed companies)



The BD Policy and the list of desirable skills/experience/perspectives of Board Members were taken into account by the Nominations Committee and the Board in considering the following appointments during the year:

- (i) Mr Rex Auyeung Pak-kuen as a new NED;
- (ii) Dr Jacob Kam Chak-pui as a new ED; and
- (iii) Mr Walter Chan Kar-lok, Mr Cheng Yan-kee and Mr Jimmy Ng Wing-ka as new INEDs.

The Committee and the Board formed the view that, with their respective extensive experience in the areas of insurance, legal, town planning, property development, engineering and complex construction projects, as well as their experience gained in the public sector and political arena, each of the new Board Members mentioned above would be a valuable addition to the Board and would further enrich the spectrum of skills, experience and diversity of perspectives of the Board, thereby enhancing the diversity and effectiveness of the Board.

Statutory Confirmations

For the year ended 31 December 2019, the Company has received an annual confirmation from each INED about his/her independence and, in light of the requirements under the Listing Rules which came into effect on 1 January 2019, the interests of his/her immediate family member(s) (as defined under the Listing Rules).

In discharge of its duties under its Terms of Reference, the Nominations Committee has reviewed the above confirmations and assessed the independence of the INEDs, and continues to consider each of them to be independent.

Each Member of the Board ensures that he/she can give sufficient time and attention to the affairs of the Company and contribute to the development of the Company's strategy and policies through independent, constructive and informed comments.

Regarding disclosure of the number and nature of offices held by Members of the Board in public companies or organisations and other significant commitments, as well as their identity and the time involved (the “Commitments”), to the Company, all Members of the Board have disclosed their Commitments to the Company in a timely manner.

Before each regular Board meeting, the Company reminds each Member of the Board to update his/her “Declaration of Other Directorships, Major Appointments and Interests” (the “Declaration”). The Declaration of each Alternate Director is sent to him/her for update on a quarterly basis. In addition, each Member of the Board and each Alternate Director is required to confirm his/her other directorships, major appointments and interests to the Company twice a year.

Save as disclosed in this Annual Report, none of the Members of the Board or the Executive Directorate has any relationship (including financial, business, family or other material or relevant relationships) with another Member of the Board or the Executive Directorate. In addition, none of the Members of the Board holds seven (or more) directorships in listed companies (including the Company) or holds any cross-directorships or has significant links with other Members of the Board through involvements in other companies or bodies as at 31 December 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules (the “Model Code”). After having made specific enquiry, the Company confirms that all Members of the Board and (where applicable) their Alternate Directors and all Members of the Executive Directorate have complied with the Model Code throughout the year.

Senior managers, other nominated managers and staff who, because of their office in the Company, may be in possession of Inside Information (which term shall bear the same meaning as in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the “SFO”) of the Company (collectively the “Model Code Managers”), have also been requested to comply with the provisions of the Model Code.

For enhanced monitoring and effectiveness, the Company has launched a new Model Code Managers Management System during the year, which provides an electronic platform to give one-stop access to the relevant key processes to support compliance with the Model Code. Periodic training is also required to be completed by Model Code Managers.

DIRECTORS' INSURANCE

As permitted under the Articles of Association, it has been the practice of the Company to arrange Directors' and Officers' (“D&O”) Liability Insurance for which Members of the Board and officers of the Company do not have to bear any excess. To ensure sufficient cover is provided, the Company undertakes an annual review of the Company's D&O insurance policy in light of recent trends in the insurance market and other relevant factors. The review benchmarks the amount of cover against other similar companies and considers whether separate cover will be required for Members of the Executive Directorate or Members of the Board. The conclusion of the review in year 2019 was that the level of cover was adequate and, given this, together with the indemnity provided by the Company to Members of the Board, the broad policy wording and the financial strength of the insurance panel, no additional cover was required.

CORPORATE GOVERNANCE FUNCTIONS REVIEW

The Board conducted an annual review of its Corporate Governance duties in accordance with its Terms of Reference on Corporate Governance Functions and the latest review was done in March 2020. Below is a summary of the work performed during the year ended 31 December 2019 and up to the date of the Report:

- Development and review of the Company's policies and practices on corporate governance, including the corporate governance framework, the BD Policy and the Nomination Policy;
- Review and monitoring of the training and continuous professional development of Members of the Board and senior management;
- Review and monitoring of the Company's policies and practices on compliance with legal and regulatory requirements;

CORPORATE GOVERNANCE REPORT

- Development, review and monitoring of the Code of Conduct and Directors' Manual; and
- Review of the Company's compliance with the Code.

The Board considers that, overall, the Company's Corporate Governance Functions are adequate and appropriate for the Company in light of its current corporate strategy. They will be kept under review in light of the changing legal and regulatory environment and any changes to the Company's business.

The Terms of Reference on Corporate Governance Functions are available on the websites of the Company (www.mtr.com.hk) and the Stock Exchange.

BOARD PROCEEDINGS

The Board meets in person regularly, and all Members of the Board have full and timely access to relevant information and may take independent professional advice at the Company's expense, if necessary, in accordance with the approved procedures.

The draft agenda for regular Board meetings is prepared by the Company Secretary (the L&EBD) and approved by the Chairman of the Company. Members of the Board are advised to inform the Chairman or the Company Secretary not less than one week before the relevant Board meeting if they wish to include a matter in the agenda of the meeting. The agenda together with Board Papers are usually sent at least three days before the intended date of the Board meeting.

The Board meeting dates for the following year are usually fixed by the Company Secretary with the agreement of the Chairman, before communicating with other Members of the Board, in the third quarter of each year.

At regular Board meetings, Members of the Executive Directorate together with senior managers report to the Board on their respective areas of business.

The CEO Report, provided to the Board on a monthly basis, covers the overall strategies, principal issues and key events of the Company for the relevant month and provides key information in areas such as the Group's safety performance in different business sectors, financial activities, contingent

liabilities, human resources developments and new railway projects, as well as a look ahead to key issues or events in the following three to six months. During the year, the layout of the Report has been modified by summarising the abovementioned information in the CEO Review section, with fuller details in appendices and additional data in attachments, to make the CEO Report more user friendly. This CEO Report together with the discussions at Board meetings, ensures that Members of the Board have an overall understanding of the Company's business and other key information about the Company, and provides up-to-date information to enable them to make informed decisions for the benefit of the Company.

All Members of the Board have access to the advice and services of the Company Secretary, who is responsible for ensuring that the correct Board procedures are followed and advising the Board on all corporate governance matters. Members of the Board also have full access to Members of the Executive Directorate as and when they consider necessary.

An electronic meeting solution has been used for the Company's Board meetings and Executive Committee meetings starting from 2017, which has subsequently been expanded to meetings of Board Committees. Apart from contributing to the Company's environmental efforts, the electronic meeting solution also enables Members of the Board and the Executive Committee to access meeting documents and join virtual meetings remotely in a secure, efficient and convenient manner.

MATERIAL INTERESTS AND VOTING

All Members of the Board and the Executive Directorate are required to comply with their common law duty to act in the best interests of the Company and have particular regard to the interest of the Company's shareholders as a whole. To this end, all of them are required to declare the nature and extent of their interests, if any, in any contract, transaction, arrangement or other proposal to be considered by the Board at Board meetings.

Unless specifically permitted by the Articles of Association, a Member of the Board cannot cast a vote on any contract, transaction, arrangement or any other kind of proposal in which he/she has an interest which he/she knows is material. For this purpose, the interests of a person who is connected with a Member of the Board (including any of his/her associates) are treated as the interests of the Member of the Board himself/herself. Interests purely as a result of an interest in the Company's shares, debentures or other securities are disregarded. A Member of the Board may not be included in the quorum for such part of a meeting that relates to a resolution he or she is not allowed to vote on but he or she shall be included in the quorum for all other parts of that meeting. This reduces potential conflicts which might otherwise arise between the Company's business and an individual Member of the Board's other interests or appointments.

If a conflict arises between the interests of the Company and those of Government, each Government-nominated Director and any Director holding a senior Government position, is not included in the quorum for that part of the meeting which relates to the contract, transaction, arrangement or other proposal being considered by the Board and in relation to which the conflict exists and is not allowed to vote on the related resolution.

There are a number of contractual arrangements that have been entered into between the Company and Government (and/or its related entities), some of which are continuing in nature. As Government is a substantial shareholder of the Company, such contractual arrangements are connected transactions (and in some cases continuing connected transactions) for the purposes of the Listing Rules. The sections headed "Connected Transactions" and "Continuing Connected Transactions" (pages 154 to 174) of this Annual Report explain how, in accordance with the Listing Rules, these transactions have been treated.

Matters to be decided at Board meetings are decided by a majority of votes from Members of the Board allowed to vote, although the usual practice is that decisions reflect the consensus of the Board.

BOARD MEETINGS

The Board held 18 meetings in 2019 (seven Regular Meetings, eight Special Meetings and three Private Meetings), well exceeding the requirement of the Code which requires every listed issuer to hold board meetings at least four times a year.

Regular Meetings

At each Regular Meeting, the Board reviewed, discussed and, where appropriate, approved matters relating to the Company's different businesses and financial and operational performance.

In addition, other key matters discussed at Board meetings held in 2019 included:

- Corporate Governance matters, including:
 - A review of the Board's structure and composition and its corporate governance functions; the annual assessment of (i) the independence of the INEDs; and (ii) the effectiveness of the Company's risk management and internal control systems;
 - The appointment of new Members of the Board in 2019;
 - The approval of the Nomination Policy; changes to Board Committee composition; amendments to the Terms of Reference of the Audit Committee and Nominations Committee;
 - Recommendation of the renewal of the Scrip Dividend Scheme; the appointment of new Members of the Board and election/re-election of retiring Members of the Board, for approval by shareholders at the 2019 AGM;
 - Receipt and consideration of reports from Management on key matters such as safety, risk management and sustainability; and
 - Receipt of shareholder analysis and investors' feedback;

CORPORATE GOVERNANCE REPORT

- **Projects:**
 - Receipt of updates on the SCL project and related matters;
- **Operations:**
 - Review of 2018 train service performance;
 - Receipt of updates on material incidents that happened in 2019;
 - Contract award for maintenance services and asset replacement/upgrading projects; and
 - Receipt of updates on digital project progress and development roadmap – Customer Experience & Railway Asset Management;
- **Mainland China and International Businesses:**
 - Receipt of updates on Macau, Mainland China and International Businesses, business development opportunities, and approval of potential business investments and partnership opportunities; and
 - Approval of overseas projects and investment;
- **Property:**
 - Award of contract for investment property works;
 - Approval of tender arrangement for a property development in Hong Kong; and
 - Receipt of updates on property development projects in Hong Kong;
- **Human Resources:**
 - Approval of 2019 Annual Pay Review;
- **Commercial and Marketing:**
 - Review of the principles for revising the Company's fares under the Fare Adjustment Mechanism (the "FAM") and approval of the Controlled Fares for 2019 under the FAM; and
 - Review of the proposed fares for new stations on the Tuen Ma Line;

- **Financial:**
 - Approval of the 2018 Annual and the 2019 Interim Report and Accounts;
 - Approval of the renewal of the US\$5 Billion Debt Issuance Programme; and
 - Approval of the 2020 Budget and Longer Term Forecast.

The minutes of Board meetings are prepared by the Company Secretary or her delegate with details of the matters considered by the Board and decisions reached, including any concerns raised by Members of the Board or dissenting views expressed. The draft minutes are circulated to all Members of the Board for their comments within a reasonable time after the meeting. The approval procedure is that the Board formally adopts the draft minutes at the subsequent meeting. If Members of the Board have any comments on the draft minutes, they will discuss it at that meeting and any agreed changes will be reflected in the formal minutes of the relevant meeting. Minutes of Board meetings are kept by the Company Secretary and are open for inspection by all Members of the Board at the Company's registered office.

Special Meetings

During 2019, a total of eight Special Meetings were held to consider matters relating to the SCL project, the material service incidents in Hong Kong during the year, tender matters in relation to property development projects in Hong Kong and the impact of public order events on the Company.

Private Meetings

During 2019, the Chairman held three Private Meetings at which a range of matters, including consideration of an internal policy on the provision of legal support to staff, management organisational and governance matters, and appointments of the CEO and a senior executive were discussed. In addition, the Chairman met with INEDs only without the presence of other Board Members to discuss the functioning of the Board and the contributions required from INEDs and whether they were spending sufficient time performing them, general strategy and organisational matters of the Company.

The attendance record of each Member of the Board (and each Member of the Executive Directorate) during the year is set out on pages 96 to 97 of this Annual Report.

INDUCTION PROGRAMME AND OTHER TRAINING

Induction Programme

On appointment, each new Member of the Board (including Government nominated Directors), Alternate Director and Member of the Executive Directorate is given a comprehensive, formal and tailored induction programme which covers:

- the roles of a director from the strategic, planning and management perspectives, as well as the essence of corporate governance and the trends in these areas; and
- the general and specific duties of a director under general law (common law and legislation) and the Listing Rules.

In addition to the above, a Familiarization Programme to understand the key areas of the Company's business and operations is also provided.

All Members of the Board, Alternate Directors and Members of the Executive Directorate are also given a Directors' Manual on their appointment which sets out, amongst other things, directors' duties and the Terms of Reference of the Board on its Corporate Governance Functions and of its Board Committees. The Directors' Manual is updated from time to time to reflect developments in those areas. The latest update to the Directors' Manual was approved by the Board on 7 January 2020. The updated Directors' Manual has been reorganised to make it more user-friendly with increased focus on Directors' roles and responsibilities and their key obligations from both a statutory and a regulatory perspective. New sections have been added, including an overview of the Company's governance framework and sections on anti-bribery, Directors' time commitments and declarations of interest, the Company's commitment to equal opportunities and the Company's whistle-blowing policy.

Training and Continuous Professional Development

Members of the Board and the Executive Directorate

To assist Members of the Board and the Executive Directorate in continuing their professional development, the Company Secretary recommends them to attend relevant seminars and courses at the cost of the Company.

Training

Materials on the subject of corporate governance and e-learning provided by the Stock Exchange are provided/ notified to Members of the Board, Alternate Directors and Members of the Executive Directorate from time to time to keep them abreast of the latest developments on this front.

Each Member of the Board and the Executive Directorate has also provided to the Company a record of the training he/she has received during the year, which is set out on pages 96 to 97 of this Annual Report.

Senior Executives

A comprehensive and tailored training programme has been developed for the Senior Executives of the Company. This programme consists of a series of workshops, seminars, e-learning and benchmarking visits which are organised on an on-going basis.

To support the enhancement of the business acumen, leadership and management skills of the Senior Executives, professors from renowned business schools are engaged to share cutting-edge research and insights on thought leadership, leading change, digital transformation and innovation as well as contemporary management and business topics. A tailored global leadership development programme was also organised in 2019 to enable certain key Senior Executives to enhance their leadership, customer-centric and strategic thinking capabilities.

ACCOUNTABILITY

Members of the Board are responsible for the consolidated accounts of the Group. The consolidated accounts are prepared on a going concern basis and give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of the Group's consolidated financial performance and consolidated cash flows for the year then ended. In preparing the consolidated accounts for the year ended 31 December 2019, Members of the Board have selected appropriate accounting policies and, apart from those new and amended accounting policies as disclosed in the notes to the consolidated accounts for the year ended 31 December 2019, have applied them consistently with previous financial periods. Judgments and estimates have been made that are prudent and reasonable. The reporting responsibilities of the external auditor of the Company (the "External Auditor") are set out on pages 178 to 181 of this Annual Report.

In support of the above, the consolidated accounts presented to the Board have been reviewed by Members of the Executive Directorate. For both the annual and interim reports and consolidated accounts, the Finance Division is responsible for clearing them with the External Auditor and then the Audit Committee. In addition, all new and amended accounting standards and requirements, as well as any changes in accounting policies adopted by the Group, have been discussed and approved at the Audit Committee before adoption by the Group.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Board is responsible for the internal control system and the risk management system (the "ERM" system) of the Company and its subsidiaries, setting appropriate policies and reviewing the effectiveness of the internal control system and the ERM system. The internal control system and the ERM system, with processes put in place by the Board, management and other personnel, are designed to manage (as opposed to eliminate) the risk of failure and provide reasonable assurance, and not absolute assurance, against material misstatement or loss, regarding the achievement of objectives in the following areas:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Effectiveness of risk management

Systems Overview

The Executive Committee is responsible for:

- Implementing the Board's policies on risk management and internal controls;
- Identification and evaluation of the risks faced by the Company for consideration by the Board;
- Designing, operating and monitoring a suitable internal control system and an ERM system; and
- Providing assurance to the Board that it has done so, together with a confirmation that these systems are effective and adequate.

In addition, all employees have responsibility for internal controls and risk management within their areas of accountability.

Business/Functional Management Committees

A number of committees have been established to assist the Executive Committee in the management and control of the Company's various core businesses and functions. Key committees include:

- Operations Executive Management Committee
- Property Executive Management Committee
- Project Control Group
- Investment Committee
- European Business Management Committee
- Australian and International Consultancy Business Management Committee
- Mainland China Business Management Committee
- Macau Business Management Committee
- Information Technology Executive Management Committee
- Corporate Safety Management Committee

- Enterprise Risk Committee
- Executive Tender Panel/Tender Board
- Corporate Responsibility Steering Committee
- Cost Control Committee (Projects)
- Executive Cost Control Committee (Projects)
- Corporate Cyber Security Committee
- Corporate Security Management Committee
- Railway Development Steering Group
- Technical Management Steering Group
- Commercial Letting Committee

Internal Audit

The Internal Audit Department (“IAD”) provides independent, objective assurance and consulting services designed to add value and improve the Company’s operations. Key responsibilities of the IAD include:

- Carrying out analysis and independent appraisal of the adequacy and effectiveness of the risk management and internal control systems of the Company;
- Recommending improvements to existing management controls and resources utilisation; and
- Performing special reviews, investigations and consulting and advisory services related to corporate governance and controls as commissioned by management or the Audit Committee of the Company.

The Head of Internal Audit reports directly to the CEO and the Audit Committee. The IAD has unrestricted access to information that allows it to review all aspects of the Company’s risk management, control and governance processes. On a regular basis, it conducts audits on financial, operational and compliance controls, and the risk management functions of the Company and its subsidiaries. Relevant members of the management team are responsible for ensuring that control deficiencies highlighted in internal audit reports are rectified within a reasonable time. The IAD produces an annual internal audit plan for the Audit Committee’s approval. The audits are selected based on a risk assessment to ensure that business activities with higher risks are covered. On a half-yearly basis, the Head of Internal Audit reports to the Audit Committee including his opinion on the adequacy and effectiveness of the Company’s internal control system.

ERM system

The ERM system is an essential and integral part of the Company’s corporate governance framework and helps to sustain business success and create value for stakeholders. It involves a corporate-wide systematic risk identification and management process which aims to assist the Executive Committee and individual business unit managers to manage the key risks facing the Company and supports the Board in discharging its corporate governance functions.

More details of the features of the ERM system, the process used to identify, evaluate and manage significant risks, the significant risks being managed and the process used to review the effectiveness of the ERM system are set out in the “Risk Management” section (pages 118 to 121) of this Annual Report.

Board Oversight

The Board, assisted by the Risk Committee and the Audit Committee respectively, oversees the Company’s ERM system and internal control system on an on-going basis and reviews the effectiveness of the systems at least annually. The duties of and work performed in 2019 by the Risk Committee and Audit Committee respectively are set out in the “Risk Committee Report” (pages 122 to 123) and “Audit Committee Report” (pages 115 to 117) of this Annual Report.

Control Activities and Processes

Compliance with Statutes and Regulations

To ensure the efficient and effective operation of business units and functions, and the safety of the operating railway and construction works in railway projects, Corporation General Instruction(s) (“CGI(s)”), divisional/departmental procedures and manuals, committees, working groups and quality assurance units are established to monitor and enforce internal controls and evaluate their effectiveness.

CGIs and various departmental procedures and manuals are established for preventing or detecting unauthorised expenditures/payments, safeguarding the Company’s assets, ensuring the accuracy and completeness of accounting records and timely preparation of reliable financial information.

All Department Heads, including General Managers/Project Managers for overseas subsidiaries/projects, are responsible for ensuring compliance with the statutes and regulations applicable to their own functional units. With necessary legal support, they are required to:

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- Identify any new or updated statutes;
- Assess their impact on the Company's operations;
- Review at least once a year that the relevant statutes/regulations have been complied with; and
- Report any potential and actual significant non-compliances to the respective Divisional Directors and the Executive Committee.

Issues relating to compliance with statutes and regulations, including potential and actual non-compliances, and the status of rectification and actions taken to prevent recurrence are reported annually to the Executive Committee and the Audit Committee.

Divisional Directors, Department Heads, including General Managers/Project Managers for overseas subsidiaries/projects, are required to conduct annual assessments and certifications on the effectiveness of internal controls and risk management systems within their areas of responsibility.

Whistle-blowing Policy

A whistle-blowing policy has been put in place to deal with concerns related to fraudulent or unethical acts or non-compliances with laws and the Company's policies that have or could have significant adverse financial, legal or reputational impacts on the Company. The policy applies to all staff, parties who deal with the Company as well as the general public. Every half year, a summary of all whistle-blowing cases handled by the Whistle Blowing Panel and staff complaints handled by the Human Resources Management Department and management initiated investigations are reported to the Executive Committee and the Audit Committee.

Inside Information Policy

The Company has developed a system with established policies, processes and procedures across all relevant Division(s) and Department(s) for the handling and dissemination of Inside Information, which encompasses the following:

- A CGI sets out:
 - (i) the internal processes for identifying, assessing and escalating potential Inside Information to the Executive Committee and the Board;

- (ii) the responsibilities of Model Code Managers in preserving the confidentiality of Inside Information, escalating upwards any such potential information and cascading down the message and responsibilities to relevant staff; and

- (iii) the process for disclosure of Inside Information.

- Training for Members of the Board and the Executive Directorate, Executive Managers, Department Heads and Model Code Managers (on the basis that they may be in possession of Inside Information because of their positions in the Company) is provided from time to time. In particular, Members of the Executive Directorate, Executive Managers, Department Heads and Model Code Managers are regularly required to complete a computer-based training programme ("CBT Programme") on Inside Information; and
- On-going training sessions on the latest developments/requirements of the SFO are arranged as appropriate.

The Board considers that the Company's existing system and measures are effective and appropriate, with supporting compliance mechanisms to provide assurance that the Company and its officers observe their disclosure obligations in respect of Inside Information.

Evaluation of the Effectiveness of the Risk Management System

The Company has surpassed the relevant best practices in the Code by completing an effectiveness review of the ERM system for the Company and its subsidiaries, and extending the review to the Company's associates operating in Mainland China and overseas. For the year ended 31 December 2019, the Risk Committee, with delegated authority from the Board, has evaluated the effectiveness of the ERM system of the Company and considers that it is overall effective and adequate.

As a learning organisation, the Company constantly looks for improvement opportunities through internal and external reviews and studies, as well as learning from incidents.

In 2019, the Company encountered a number of challenges on the operational front, including the train collision during signalling testing on the Tsuen Wan Line in March and the derailment near Hung Hom Station on the East Rail Line in September. Following each of these incidents, in-depth

investigations were undertaken with lessons learned identified for continuous improvement, and risk controls have also been enhanced.

Details about the “Process of System Effectiveness Review” are set out in the Risk Management section (page 121) of this Annual Report.

Evaluation of the Effectiveness of the Internal Control System

For the year ended 31 December 2019, the Audit Committee, with delegated authority from the Board, evaluated the effectiveness of the internal control system of the Company and its subsidiaries based on the following:

- A review of significant issues arising from internal audit reports and the external audit reports;
- Private sessions with internal and external auditors;
- A review of the annual assessment and certification of internal controls from Members of the Executive Directorate, management of overseas subsidiaries and Department Heads in their areas of responsibility;
- A review of papers submitted/prepared by the Executive Committee and the IAD covering periodic Financial Reports and Accounts; preview of Annual Accounting and Financial Reporting issues; Annual Internal Audit Plan; IAD’s Half-yearly Reports; Whistle-blowing Reports; Report on the Company’s Risk Management and Internal Control System; Report on Evaluation of Effectiveness of IAD; and Report on Outstanding Litigation and Compliance Issues; and
- The results from internal audits performed during the year on the effectiveness of the internal control system of the Company and its subsidiaries.

The Audit Committee concluded that the internal control system was overall effective.

Evaluation of the Adequacy of Resources of the Company’s Accounting, Financial Reporting and Internal Audit Functions

For the year ended 31 December 2019, the annual assessment performed by Finance Division and IAD concluded that there were adequate resources, staff qualifications and experience, training programmes and budget of the Company’s accounting, financial reporting and internal audit functions.

The Company is committed to recruit, train and develop a team of qualified and competent accountants in order to oversee the Group’s financial reporting and other accounting-related matters. A process to capture and update relevant laws, rules and regulations applicable to the reporting and accounting function is in place. Designated officers will ensure relevant standards and ordinances including Hong Kong Financial Reporting Standards, the Listing Rules and the Companies Ordinance under their responsibility are complied with. Resources and provisions required to deliver the accounting and financial reporting function are critically reviewed during the annual budgeting exercise. Company-wide recruitment processes and staff development programmes are in place to address the competency, qualifications and experience required. Adherence to the process is confirmed on an annual basis by the designated officers to the Finance Director who will conduct a formal annual review and report the review results to the Audit Committee. Based on the above, the Audit Committee considered the resources, qualifications and experience of staff of the Company’s accounting and financial reporting function, and their training programmes and budget were adequate.

In terms of internal audit, the Company is also committed to recruit, train and develop a team of qualified and competent internal auditors to provide independent and objective assurance and consulting services designed to add value and improve the Company’s operations. A process to capture updated standards and best practices relating to internal audit is in place. Proper recruitment processes and staff development programmes are in place to address the competency, qualifications and experience required. The Head of Internal Audit conducts a formal annual review on the adequacy of staff resources, qualifications and experience of the internal audit function and reports the review results to the Audit Committee. Based on the above, the Audit Committee considered the resources, qualifications and experience of staff of the Company’s internal audit function, and its training programmes and budget were adequate.

Board’s Annual Review

The Board has, through the Risk Committee and the Audit Committee, overseen the Company’s risk management and internal control systems on an on-going basis. The Board has conducted its annual review of the risk management and internal control systems of the Company and its

subsidiaries and key associates for the year ended 31 December 2019, and considers that such systems are overall effective and adequate.

The Board has conducted a review of the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, financial reporting and internal audit functions for the year ended 31 December 2019, and considers the above resource components to be adequate.

CRISIS MANAGEMENT

To uphold the reputation of being one of the world's leading railway operators and in order to help ensure that the Company will respond to and recover from crises in an organised and highly effective manner, including timely communication with principal stakeholders such as Government departments and shareholders, the Company has an established mechanism to activate the formation of the Crisis Management Team in the event of a crisis. The Crisis Management Team comprises relevant Members of the Executive Directorate and Executive Managers, and its operation is governed by a Crisis Management Plan which, among other things, sets out the duties of respective members. The Crisis Management Plan is kept in line with world-class standards and up-to-date through regular reviews. The operation of the Crisis Management Team is aided by an information system to keep track of the latest crisis situation, issues and strategic actions and disseminate crisis related information. Regular Crisis Management Team exercises are held to validate the crisis management organisation and arrangements and to provide practices for members.

In order to manage the impacts on our businesses arising from the prolonged public order events in Hong Kong in the second half of 2019, the Crisis Management Team was activated to monitor the situation and direct the Company's responses and actions in a coordinated manner, with the safety of our customers, staff and contractors always placed as the top priority. In response to the outbreak of Coronavirus Disease-2019 (COVID-19) in January 2020, the Crisis Management Team was activated to manage its potential impacts on the Company's operations.

GOVERNANCE OF SUBSIDIARIES AND ASSOCIATES

The Company has a number of subsidiaries and associates which operate independent businesses in Hong Kong, the Mainland of China and overseas. Notwithstanding the fact that these subsidiaries and associates are separate legal entities, the Company has implemented a management governance framework (the "Governance Framework") to ensure that it exercises an appropriate level of control and oversight as a shareholder of these subsidiaries and associates.

The Company's refined Governance Framework promotes collaboration between the corresponding functions in the Company on the one hand and the subsidiaries and associates on the other hand and the implementation process has been enhanced to promote a proper Governance Framework in the Company's subsidiaries and associates from inception of any new business operations/investments.

Pursuant to the Governance Framework, the Company exercises its control and oversight through formulation of a governance structure that is tailored for individual subsidiaries and associates through (i) imposition of certain internal controls in key areas; and (ii) adoption of management practices and policies that are appropriate to the business nature and local situation. As a result, adequate internal controls will be adopted by subsidiaries and associates and the Company will be consulted and notified on important matters, complemented by regular reporting and assurance. Compliance with this governance structure is reported by subsidiaries and associates with significant operations on an annual basis.

BUSINESS ETHICS

Practising integrity and responsible business ethics is paramount to the Company's continued success. The Company's Code of Conduct lays down the requirements of the Company in terms of ethical practices and obliges staff to operate transparently and under the highest principles of fairness, impartiality and integrity in all of the places where the Company does business.

The Code of Conduct is reviewed and updated periodically to ensure appropriateness and compliance with corporate and regulatory requirements. Following the release of a revised Code of Conduct to all staff in early May 2018, education programmes including seminars and mandatory CBT Programmes have been introduced to raise staff awareness. In November 2019, a new mandatory CBT Programme on “Understanding Personal Data (Privacy) Ordinance” for all staff was launched with a short quiz as part of the Code of Conduct CBT Programme series. Staff members are also encouraged to report existing or perceived violations or malpractices. Proper procedures have already been put in place pursuant to the whistle-blowing policy of the Company, under which staff members can raise their concerns in a safe environment and in complete confidence if they have genuine suspicions about wrongdoings.

To enable new recruits to embrace the Company’s values and ethical commitments, they will be briefed on the Code of Conduct as part of the staff induction programme. New recruits are also required to complete the mandatory CBT Programmes within three months of joining the Company. The Code of Conduct is also uploaded onto the Company’s website (www.mtr.com.hk).

In addition, the Code of Conduct serves as a guideline to establish a comparable ethical culture in our subsidiaries and associates in Hong Kong, the Mainland of China and overseas.

EXTERNAL AUDITOR

The Company engages KPMG as its External Auditor. In order to maintain KPMG’s independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, the Audit Committee, under its Terms of Reference, pre-approves all audit services to be provided by KPMG and discusses with KPMG the nature and scope of their audit and reporting obligations before the audit commences.

The Audit Committee also reviews and pre-approves the engagement of KPMG to provide any non-audit services, for complying with relevant legal requirements and seeks to balance the maintenance of objectivity with value for money.

The nature of audit and non-audit services provided by KPMG and fees paid to KPMG (including any entity that is under common control, ownership or management with KPMG or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of KPMG nationally or internationally) are set out in note 10B to the consolidated accounts on page 206 of this Annual Report.

For maintaining integrity and objectivity as the External Auditor of the Company, KPMG implements policies and procedures to comply with professional ethics and independence policies and requirements applicable to the work it performs. In addition, KPMG requires its audit partner serving the Group to rotate off the audit engagement with the Group at least once every seven years in accordance with the Hong Kong Institute of Certified Public Accountants/ International Federation of Accountants Code of Ethics.

COMMUNICATION WITH SHAREHOLDERS

Annual General Meeting (the “AGM”)

The Company’s AGM is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to communicate face to face with the Directors about the Company’s performance and operations. It has been the practice for the Chairman of the Company, the chairman of each Board Committee, all Members of the Executive Directorate and the External Auditor of the Company to attend AGMs to answer shareholders’ questions.

The 2019 AGM was held on 22 May 2019 and, for the first time, the Company provided sign language interpretation in addition to simultaneous Cantonese, English and Putonghua interpretation. For the benefit of the Company’s shareholders who did not attend the AGM, the whole proceedings were webcast and posted on the Company’s website (www.mtr.com.hk) in the same evening.

The 2020 AGM has been scheduled on 20 May 2020 and the Company plans to continue providing the abovementioned simultaneous interpretation to further facilitate smooth and direct communication between the shareholders of the Company and the Company’s Directors and management. The Company is committed to making available meeting facilities to enable all eligible attendees to be able to participate in the AGM.

Resolutions passed at the 2019 AGM

The Chairman proposed separate resolutions for each substantially separate issue at the 2019 AGM. Before the resolutions were considered, the Chairman exercised his right as the Chairman of the 2019 AGM under Article 71 of the Articles of Association to call a poll on all resolutions conducted by electronic means.

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A total of 13 resolutions were passed at the 2019 AGM (with resolution no. 3 comprising four separate resolutions), each supported by over 98% of the votes cast. The full text of the resolutions is set out in the 2019 AGM Circular (which comprised Notice of the 2019 AGM) dated 12 April 2019 and the results of the AGM are available on the respective websites of the Company (www.mtr.com.hk) and the Stock Exchange.

Calling General Meetings

Directors of the Company may call a general meeting of the Company.

Shareholders representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings may request the Directors of the Company to call a general meeting of the Company.

The requesting shareholders must state in their request the general nature of the business to be dealt with, and may include the text of a resolution to be moved at the general meeting. The request may consist of several documents in like form and may be sent to the Company in hard copy or electronic form, which must be authenticated by the requesting shareholders.

The Directors of the Company are required to call the general meeting within 21 days after the date on which the Company receives such requests, and the general meeting must be held on a date not more than 28 days after the date of the notice convening the general meeting. If the requests include a resolution to be moved at the general meeting, the notice of the general meeting must include notice of the resolution. If the resolution is to be proposed as a special resolution, the Directors of the Company are required to specify the intention to propose the resolution as a special resolution in the notice of the general meeting.

If, within 21 days after the date on which the Company receives the required requests, the Directors of the Company do not proceed duly to call a general meeting, the shareholders who requested the general meeting, or any of them representing more than one-half of the total voting rights of all of them, may themselves call a general meeting, provided that the general meeting must be called for a date not more than 3 months after the date on which the Company receives the required requests.

Procedures for Shareholders Putting Forward Proposals

Shareholders may put forward proposals for consideration at a general meeting according to the Companies Ordinance and the Articles of Association.

As regards proposing a person for election as a director, please refer to the "Appointment Procedure for Members of the Board of the Company" which is available on the website of the Company (www.mtr.com.hk).

Enquiries from Shareholders

The Company has a Shareholders' Communication Policy (available on the website of the Company (www.mtr.com.hk)) to provide shareholders with information about the Company to enable them to engage actively with the Company and exercise their rights as shareholders in an informed manner.

The Company's Shareholders Communication Policy has set out, amongst other things, a channel for shareholders access to the Board and management by writing to the Company Secretary of the Company.

Please also refer to the Investor Relations section (pages 82 to 83) of this Annual Report on other means of communication with shareholders.

CONSTITUTIONAL DOCUMENT

The Articles of Association (in both English and Chinese) are available on the websites of both the Company (www.mtr.com.hk) and the Stock Exchange. During the year ended 31 December 2019, there was no change to the Articles of Association.

For and on behalf of the Board

Gillian Elizabeth Meller
Company Secretary
Hong Kong, 5 March 2020